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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45

Forward-Looking Mechanism)
for High Cost Support for)
Non-Rural LECs)

CC Docket No. 97-160

**REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY,
PACIFIC BELL, AND NEVADA BELL ON ALTERNATIVE METHODOLOGIES**

Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell (collectively, the "SBC LECs") provide these Reply Comments with respect to the Public Notice, DA 98-715, and the comments received on alternative methods of determining high-cost universal service support.¹

Various parties have proposed that the intrastate universal service costs currently recovered in the interstate jurisdiction (through the Part 36 high-cost funding mechanism) should be continued when the new mechanism is put into place on January 1, 1999.² Those intrastate

¹ By filing these Reply Comments, none of the SBC LECs or any affiliate waives, prejudices, or otherwise adversely affects any appeal or other recourse from any Commission or State proceeding or action, including the *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, 12 FCC Rcd 8776 ("Universal Service Order").

² See BellSouth proposal filed April 27, 1998, Attachment 1, pp. 1, 2; GTE proposal filed April 27, 1998, pp. 28, 29.

Reply Comments of SBC LECs
May 29, 1998

CC Docket Nos. 96-45 and 97-160
Alternative Support Methodologies [DA 98-715]

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costs are included in the calculation of interstate access rates, and are thus built into the existing interstate long distance prices. The SBC LECs agree with the suggestion that the current level of assistance to intrastate cost recovery provided by the existing interstate Part 36 mechanism should be maintained for the same public policy reasons for which it was originally adopted. To suddenly shift recovery responsibility to the intrastate jurisdiction would place an unreasonable burden on State commissions and intrastate prices. But perhaps more importantly, if recovery was shifted to the intrastate jurisdiction, it would result in an effective price increase for end-users if interexchange carriers ("IXCs") follow form, and not reduce their interstate toll minute-of-use ("MOU") prices in response to the interstate access reductions. That form has certainly been demonstrated in the case of IXC recovery of their universal service contributions and presubscribed interexchange carrier charges ("PICCs"). IXCs have imposed new surcharges on end-users without a corresponding reduction in MOU charges even though the MOU charges were already recovering equivalent interstate access costs.

To maintain the same level of universal service funding, the jurisdictional responsibility for funding support should be calculated by identifying the amount of existing implicit and explicit support currently recovered by interstate mechanisms as BellSouth suggests. The total amount of universal service support should also be identified. This can be done by subtracting intrastate basic local service revenues and interstate subscriber line charge ("SLC") revenues (these revenues are generated by prices charged for service which meets the FCC definition of "universal service") from the total actual costs of providing universal service. The FCC should

maintain the jurisdictional relationship that currently exists between its interstate funding amount and the total amount of universal service support.

Some parties have suggested that the new federal universal service funding mechanism should recover intrastate universal service costs above and beyond those that are recovered through the existing Part 36 high-cost funding mechanism.³ Costs are currently assigned to the interstate and intrastate jurisdictions based upon the Part 36 separations process. The Communications Act of 1934, as amended, has established a dual jurisdictional structure that separates responsibility for pricing and cost recovery matters between the FCC and State commissions. The level of intrastate costs currently recovered through the Part 36 funding mechanism was agreed to in a Joint Board (with statutory state and federal representation) recommendation.

Before any such proposal could be adopted, it should be addressed by a new Joint Board proceeding, with any decision implemented no later than July 1999. There are numerous issues that would need to be addressed. For example, the Joint Board must need to address the extent to which a legitimate public policy reason exists that assigns additional intrastate recovery to the interstate jurisdiction. The States have recovery responsibility for these costs now, and it is not clear why that should change regardless of whether the universal service cost level and structure in a State.

The SBC LECs believe that the issue of affordability would be a very appropriate, if not

³ See, e.g., BellSouth Comments filed May 15, 1998, pp. 3, 4, Attachment 1; U S WEST's Comments filed May 15, 1998, pp. 6-8.

indispensable, issue that the Joint Board would need to address. The Joint Board should first establish an affordability-based revenue benchmark which can be used to identify universal service charges that would be unaffordable. Using an affordability-based revenue benchmark and price rebalancing will ensure that end-users who can afford to pay for their universal service actually do so before customers in other geographic areas (inside and perhaps outside the State) are required to subsidize the service. As part of their June 1, 1998, comments on cost proxy model inputs, the SBC LECs will propose an orderly transition to an affordability-based revenue benchmark, and that deserves further Joint Board deliberations.

The Joint Board should also address the recovery aspect of any additional intrastate universal service funding that may be assigned to the new federal mechanism under the new proposals. The SBC LECs cannot agree that any additional intrastate costs allocated to the interstate jurisdiction should be recovered in interstate access rates. How those costs would be recovered outside of access rates would need to be addressed by a Joint Board, but has not to date.

BellSouth also suggests that since the federal mechanism should recover additional intrastate costs, it should also follow that the base for the calculating funding contributions

should be based upon interstate as well as end-user retail revenues. Once again, this approach and any change of this nature is more appropriate for consideration by a new Joint Board proceeding.

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May 29, 1998

CERTIFICATE OF SERVICE

I, Mary Ann Morris, hereby certify that the foregoing, "REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL, AND NEVADA BELL ON ALTERNATIVE METHODOLOGIES," in CC Docket Nos. 96-45 and 97-160 have been filed this 29th day of May, 1998 to the Parties of Record.

A handwritten signature in cursive script, reading "Mary Ann Morris", is written over a horizontal line.

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